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RJR Quarterly Report

TO STOCKHOLDERS OF R. J. REYNOLDS INDUSTRIES, INC.
FIRST QUARTER, 1975

Annual Meeting and 1st Quarter Issue

Reynolds Industries plans new world headquarters

Plans for a new corporate headquarters building in Winston-Salem were announced April 23 at the first Annual Meeting R. J. Reynolds Industries ever held in its home town.

Holding the Annual Meeting in Winston-Salem rather than its usual site of Wilmington, Del., was one of the many observances planned by the Company for its centennial year. R. J. Reynolds was founded in 1875 and Chairman Colin Stokes told shareholders that current management will "do everything in our power to launch our second century as firmly and securely as (Richard Joshua) Reynolds launched our first 100 years."

The new building, to be available in late 1977, is one of the first major steps of the Company's second century, Stokes said. The new structure will be located in the Company's Whitaker Park area in Winston-Salem and will house the staff of the parent company and headquarters staffs of two subsidiaries, RJR Archer, Inc., and RJR Foods, Inc. R. J. Reynolds Tobacco Co. will continue to occupy the present headquarters building, a landmark in Winston-Salem for more than 45 years at Fourth and Main Streets.

"An air of confidence about our future" exists throughout Reynolds Industries, Stokes said. That view was also expressed by J. Paul Sticht, President and Chief Operating Officer, in his report on operations of Reynolds Industries' subsidiaries in tobacco, containerized shipping, petroleum, convenience foods, and aluminum products and packaging.

In addition to record sales, revenues and earnings during 1974, Stokes reminded the shareholders that first quarter 1975 sales, revenues and earnings were also records. The quarterly increases of 11 percent in sales and revenues and 2.8 percent in earnings over the first quarter of 1974, Stokes said, were achieved despite a 10 percent increase in the Company's effective tax rate.

(First quarter financial figures and other details of corporate performance are in a letter to the stockholders on page 5.)

Dividend declared

The Board of Directors of R. J. Reynolds Industries has declared a quarterly dividend of 72 cents per share on the Common Stock of the Company, payable June 5, 1975, to stockholders of record May 9, 1975.

More cigarettes go national

In the fiercely competitive cigarette market, the key to success for a manufacturer is more—more innovation and more flexibility in meeting shifting consumer demand . . . and More is just what R. J. Reynolds Tobacco Company introduced nationally in April.

More, called by Reynolds "the most innovative new cigarette since the advent of the filter," is the nation's first 120mm brand.

Exceptional consumer acceptance of More during its test marketing, which began Oct. 7 in Oklahoma City and extended into the largest metropolitan areas in the country, prompted the company to accelerate its plans for the brand's national introduction.

"Sales in the test markets have been outstanding for a new brand," said Charles A. Tucker, the tobacco subsidiary's Vice President and Director of Marketing, "and we have been flooded with calls and letters complimenting More and asking when it will be available everywhere."

"In these times of discontent and disillusionment, it's pleasant to be able to truly enjoy a new tobacco product which does deliver what its name implies," one smoker wrote. "As one who has smoked five different mentholated and regular cigarettes over the past ten years, I must commend you for developing a unique and satisfying tobacco product . . . please let me know where I can get more."

"I've never seen anything comparable to the More response, although I've been told we had the same type of reaction when Winston, now the nation's sales leader, was introduced in the '50's," said George Chandler, Reynolds Tobacco's Manager of Sales Communication. "Both men and women are impressed and excited about More, and there is simply an aura of success surrounding the brand."

"More, which is available in both regular and menthol versions, offers smokers several distinctive features apart from its overall length, a fact noted by many people writing us," Tucker said. "The slim appearance and burnished-brown paper wrapper give More a very stylish look, and we believe it will appeal strongly to fashion-conscious smokers who enjoy a full-flavor cigarette."

Although Reynolds is well aware that More must compete with more than 140 brands for smokers' attention, it is confident it has a winner.

Two new Directors elected

Two new members were added to the Board of Directors of R. J. Reynolds Industries at the Annual Meeting of Shareholders.

Dr. Juanita M. Kreps, Vice President of Duke Univ., and John Macomber,

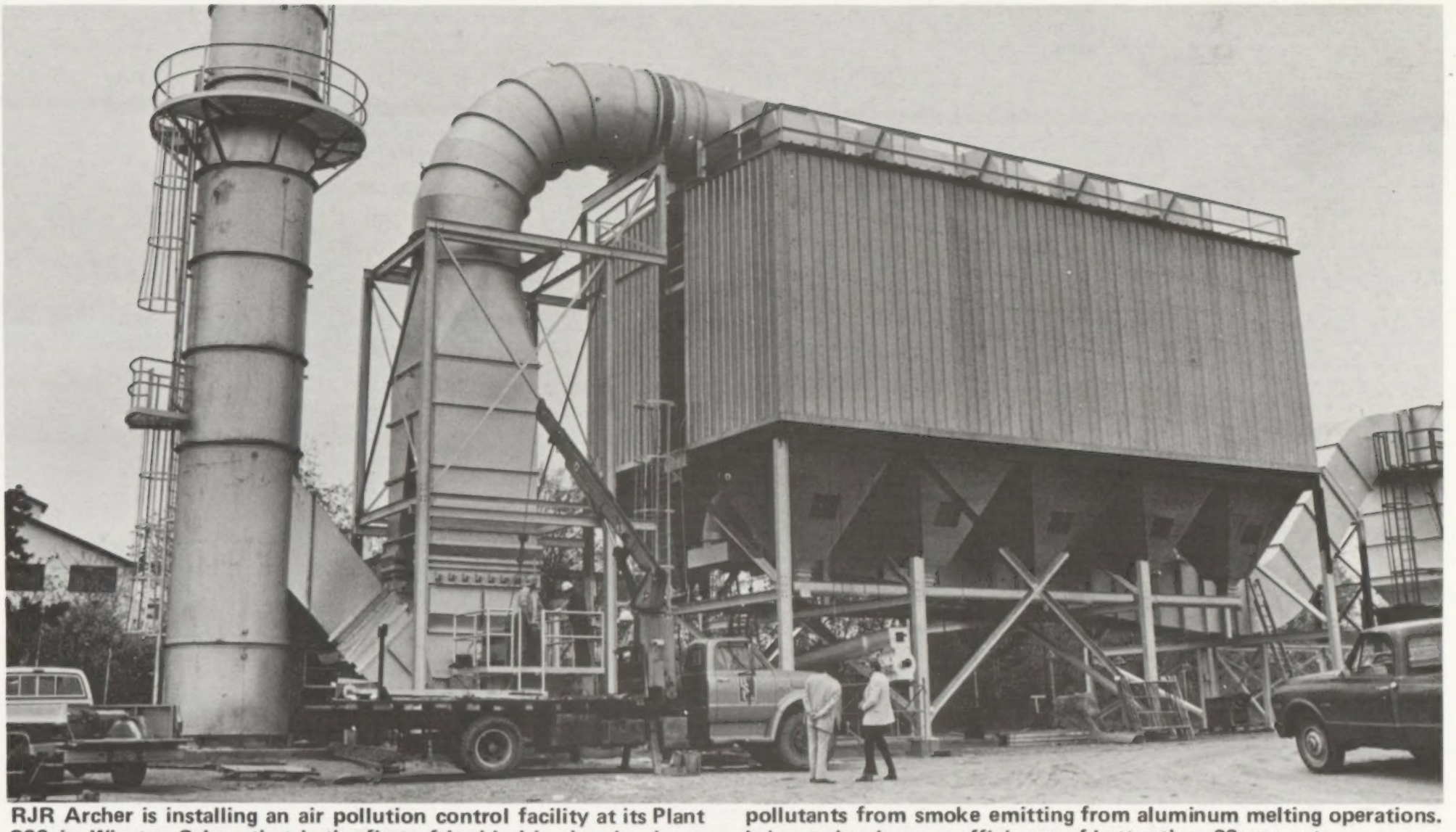
Dr. Kreps

Macomber

President of Celanese Corp., were elected to join 15 incumbent Directors. They succeed A. H. Galloway and S. A. Angotti, who are retiring from the Board.

Dr. Kreps has been a Vice President of Duke Univ. since 1973 and has been James B. Duke Professor of Economics since 1972. From 1969 to 1972 she served as Dean of the Woman's College and Assistant Provost of the university, from which she received her doctorate and where she has also served as Director of Undergraduate Studies in Economics. In addition to Reynolds Industries, she is a director of J. C. Penney Co., New York Stock Exchange, Inc., Western Electric Co., Inc., North Carolina Blue Cross and Blue Shield, Inc., North Carolina National Bank, and NCNB Corp.

Macomber has been President of Celanese Corp. since 1973, joining the company after 20 years with McKinsey and Company, management consultants. He is a member of the Board of Directors of Celanese and Norlin Corp., and also serves as a member of the international advisory committee of The Chase Manhattan Bank, N.A.



RJR Archer is installing an air pollution control facility at its Plant 200 in Winston-Salem that is the first of its kind in the aluminum industry. It is a 65-foot-high baghouse structure that will filter out pollutants from smoke emitting from aluminum melting operations. It is rated to have an efficiency of better than 99 percent.

RJR Foods unveils Big Bunch, new forms of Punch

RJR Foods is presently introducing several new fruit drink entries into the marketplace.

They include Big Bunch, a new fruit drink line that is in test market in Atlanta, and three new forms of Hawaiian Punch, a national leader in the fruit drink category.

Low Sugar Hawaiian Punch Fruit Punch is being launched nationally in June, while Hawaiian Punch Fruit Juicy Red has entered test market in a 64-oz. Plasti-Shield bottle. Also in test market is Hawaiian Punch Red Punch Drink Mix, in an eight quart canister.

Big Bunch will be the first advertised line from RJR Foods to be introduced in a new 64-ounce resealable Plasti-Shield bottle. This larger size was developed to satisfy consumers' desires for economy and to fit current consumption patterns of the most frequent users of fruit drink beverages.

The new line was formulated to attract the segment of the market that desires a single dominant flavor, and will be available in four popular versions—orange, grape, berry and cherry. Big Bunch contains 11 percent fruit juice and is 100 percent vitamin C enriched.

The line will receive heavy radio,

newspaper and couponing support.

Low Sugar Hawaiian Punch Fruit Punch is a totally new concept in fruit drinks and is formulated to appeal to the health and weight conscious adult. Containing two-thirds less sugar than other leading fruit drinks, Low Sugar Hawaiian Punch also features 11 percent fruit juice and is vitamin C enriched. The new Low Sugar product is aimed at consumers not currently purchasing higher calorie regular fruit drinks.

New 64-ounce Hawaiian Punch in the Plasti-Shield bottle offers the brand the opportunity to enter the fast growing glass container segment of the fruit juice market, and provides frequent users with a larger quantity of Fruit Juicy Red, now the largest selling individual flavor on a national basis.

Hawaiian Punch Red Punch Drink Mix offers the same unique, proprietary taste of regular Fruit Juicy Red. This introduction places a Hawaiian Punch product into the powdered drink mix category, and will be competitively priced with other leading powdered brands.

SUMMARY OF CONSOLIDATED RESULTS

(Dollars in Thousands Except Per Share Statistics)

	Three Months Ended March 31	
	1975	1974
Net sales and revenues:		
Tobacco	$ 739,022	$ 643,376
Transportation	181,659	190,838
Petroleum	110, 754	85,393
Other	71,104	70,866
Consolidated	$ 1,102,539	$ 990,473
Earnings from operations:[1]		
Tobacco	$ 115,566	$ 98,327
Transportation	15,952	14,965
Petroleum	61,095	44,697
Other	6,710	8,017
Consolidated	$ 199,323	$ 166,006
Earnings before provision for income taxes	$ 187,122	$ 153,794
Provision for income taxes	125,669	94,025
Net earnings	61,453	59,769
Preferred dividends	3,725	3,969
Net earnings applicable to Common Stock	$ 57,728	$ 55,800
Net earnings per common share:		
Primary[2]	$1.36	$1.32
Fully diluted[3]	1.24	1.21
Average number of common outstanding shares:		
Primary	42,431,528	42,124,654
Fully diluted	49,698,125	49,214,859

Notes:

[1] Earnings before interest and debt expense, other income and expense and provision for income taxes.

[2] Primary earnings per share are determined by dividing net earnings applicable to Common Stock by the average number of common shares and equivalent common shares outstanding.

[3] Fully diluted earnings per share are calculated using the "treasury stock" method. This method assumes that all shares of the Preferred Stock outstanding during the year (plus shares of the Preferred Stock which would have been issued assuming exercise of substitute options) were converted into Common Stock and the proceeds used to purchase treasury common shares at the higher of the average daily price or year-end closing price of the Common Stock.

Dear Fellow Stockholders:

The Company achieved record first quarter sales and revenues and net earnings despite a 10 percent increase in the Company's effective tax rate compared to the first quarter of last year.

Consolidated sales and revenues were $1.1 billion, up 11 percent over the first quarter of 1974. Net earnings were $61 million, up 2.8 percent. On a fully diluted basis, net earnings per common share increased three cents to $1.24. Primary net earnings per common share were $1.36, four cents higher than in 1974's first quarter.

Consolidated earnings from operations for the quarter reached $199 million, up 20 percent over the first quarter of last year. Earnings from operations are earnings before interest and debt expense, other income and expense, and provision for income taxes.

The Company's provision for income taxes for the first quarter of 1975, reflecting the estimated effect of the Tax Reduction Act, was 67 percent of earnings before taxes, compared with 61 percent for the first quarter of 1974. This higher rate results from several factors, including higher taxes on petroleum earnings and the fact that petroleum earnings, which are taxed at rates considerably higher than the U.S. income tax rate, constituted a larger part of total earnings before taxes in 1975 than 1974.

The Company cannot presently determine precisely what effect the complex foreign tax credit provisions of the recently enacted Tax Reduction Act will have on 1975 results. However, it is generally understood that under the new law the Company will not be permitted to offset excess foreign tax on foreign oil-related income against U.S. taxes on foreign non-oil-related income. The provisions of the Act providing for a higher investment tax credit will have a favorable effect on 1975 earnings to the extent the Company makes investments which qualify for the credit. The provisions of the Act which relate to the oil depletion allowance should have no material effect on 1975 earnings.

Since the enactment of the new legislation, the Company has commenced a review of its exploration policy to determine the extent to which it may wish to drill for new sources of oil, under circumstances where the after-tax cost of drilling will be substantially higher.

First quarter tobacco sales were $739 million, 15 percent higher than last year's first quarter, primarily as a result of price increases instituted in 1974. Earnings from operations of the tobacco business were $116 million for the quarter, 18 percent higher than the same period last year. The effect of the 1974 price increases on earnings from operations was partially offset by continued increases in leaf and other operating costs, including costs associated with developing and introducing new brands.

Transportation revenues for the first quarter were $182 million, down $9 million or 5 percent from the first quarter last year, as improved rates and operating effectiveness substantially offset negative factors. The negative factors included the absence in 1975 of revenue from the Puerto Rican service, which was sold in September of last year and which contributed $25 million to first quarter 1974 revenues, as well as volume declines in certain other services which reduced 1975 revenues by $20 million, reflecting a continuation of the depressed world economic situation. Transportation earnings from operations for the first quarter of 1975 were $16 million, more than 6 percent over the first quarter of 1974, but below the levels achieved during the last three quarters of last year. The depressed levels of economic activity and world trade have an important bearing on transportation operating results.

First quarter 1975 sales of the Company's petroleum business were up 30 percent to $111 million, when compared to the same period for last year. Petroleum earnings from operations for the first quarter were $61 million, 37 percent greater than the 1974 first quarter. The increase in sales and earnings from operations are the result of higher volume and the price increases announced by members of the Organization of Petroleum Exporting Countries (OPEC) during 1974. Unit sales volume in the first quarter of 1975 was higher than in 1974, when production restrictions were in effect. The increase in earnings from operations is largely absorbed by additional taxes payable to the OPEC member states where the Company's petroleum operations are located.

Sales by the Company's other businesses (foods and aluminum products and packaging) were $71 million, up less than one percent from last year, principally as a result of price increases. Volume in these businesses during the first quarter of 1975 was generally lower than a year ago, reflecting the present low level of national economic activity, including customer resistance to higher prices in many food categories and a decline in orders for those aluminum products which are used in residential construction. Earnings from operations fell 16 percent to $7 million, from the comparable period in 1974, due primarily to continuing raw material and operating cost increases in the aluminum products and packaging business. Sugar prices have shown declines during the quarter from the levels of 1974 (sugar is used extensively in the Company's food business), but this decline has been offset by increases in costs of other raw and packaging materials.

Comparative consolidated amounts, with 1975 subject to year-end adjustment and audit, are shown in the accompanying table.

A dividend of 72 cents per share on the Common Stock has been declared, payable June 5 to stockholders of record May 9.

Colin Stokes

Chairman

April 17, 1975

Summary of Annual Meeting

The Annual Meeting of Stockholders was held on April 23, 1975, at the M. C. Benton Convention Center, Winston-Salem, North Carolina. Holders of 35,406,133 common shares and 6,190,371 convertible preferred shares (82.8% and 93.4%, respectively, of the number outstanding and entitled to vote) were represented either in person or by proxy.

Colin Stokes, Chairman of the Board, presided. The following members of the Board of Directors were present: S. A. Angotti, C. F. Benbow, Herschel H. Cudd, A. H. Galloway, Gordon Gray, Wm. D. Hobbs, Walter L. Lingle, Jr., William R. Lybrook, Malcom P. McLean, Chas. F. Myers, Jr., David S. Peoples, H. C. Roemer, J. H. Sherrill, William S. Smith, J. Paul Sticht, Colin Stokes, and Chas. B. Wade, Jr. Also present were J. W. Dowdle, Treasurer, and John A. Hagan, Comptroller.

Three partners of the firm of Ernst & Ernst, independent auditors, were introduced: Robert D. Neary, J. F. Braswell, and D. L. Bodenhamer.

The stockholders elected the following members of the Board of Directors to serve for the ensuing year: Charles F. Benbow, Herschel H. Cudd, Gordon Gray, Wm. D. Hobbs, Juanita M. Kreps, Walter L. Lingle, Jr., William R. Lybrook, John Macomber, Malcom P. McLean, Charles F. Myers, Jr., David S. Peoples, H. C. Roemer, Joseph H. Sherrill, William S. Smith, J. Paul Sticht, Colin Stokes, and Chas B. Wade, Jr.

One proposal submitted to the stockholders was approved as follows:

Proposal 1 — Ratification of appointment of Ernst & Ernst as independent auditors of the Company for the year 1975.

Number of shares for:

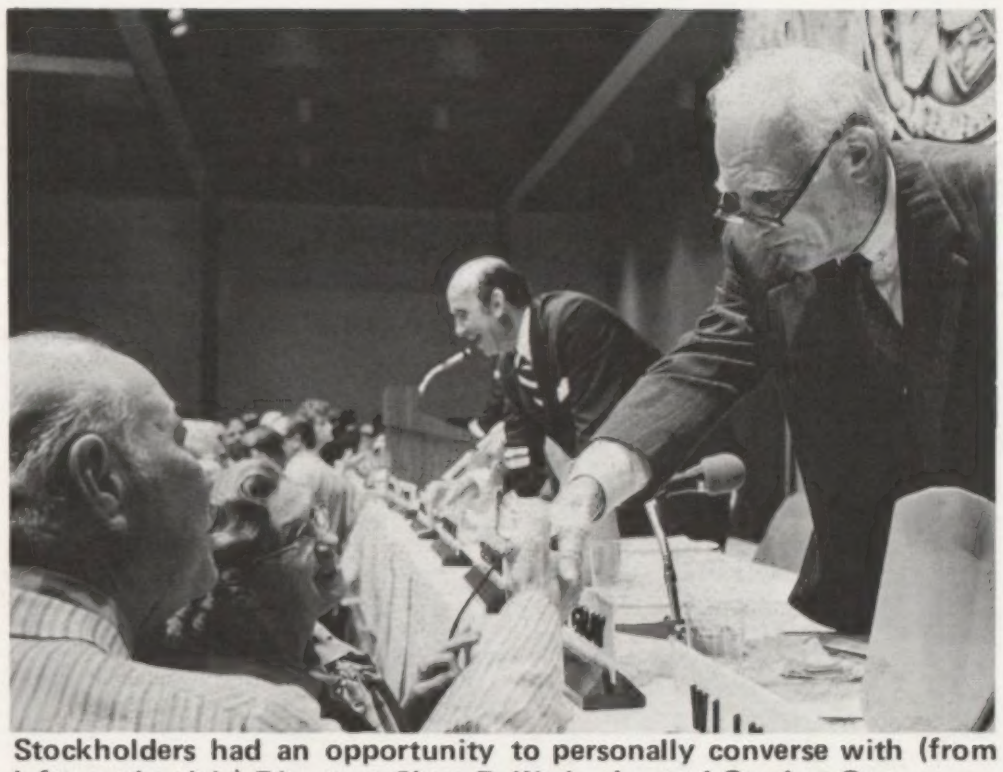
Common	35,240,395
Preferred	6,176,768
Total	41,417,163

Number of shares against:

Common	154,311
Preferred	11,068
Total	165,379
Total shares voted	41,582,542

Number of votes:

For	38,328,779
Against	159,845
Total votes cast	38,488,624



Stockholders had an opportunity to personally converse with (from left, on the dais) Directors Chas. B. Wade, Jr., and Gordon Gray.

Three proposals submitted to the stockholders were disapproved as follows:

Proposal 2 — Resolution proposed by three stockholders to provide for cumulative voting in the election of Directors.

Number of shares for:

Common	1,243,398
Preferred	136,890
Total	1,380,288

Number of shares against:

Common	33,044,490
Preferred	5,660,463
Total	38,704,953
Total shares voted	40,085,241

Number of votes:

For	1,311,843
Against	35,874,721
Total votes cast	37,186,564

Number of shareholders for:

Common	6,534
Preferred	298
Total	6,832

Number of shareholders against:

Common	76,769
Preferred	2,816
Total	79,585

Proposal 3 — Resolution proposed by three stockholders to place certain restrictions on any new stock option plans.

Number of shares for:	
Common	1,378,561
Preferred	133,868
Total	1,512,429
Number of shares against:	
Common	32,906,603
Preferred	5,663,485
Total	38,570,088
Total shares voted	40,082,517
Number of votes:	
For	1,445,495
Against	35,738,345
Total votes cast	37,183,840
Number of shareholders for:	
Common	7,951
Preferred	351
Total	8,302
Number of shareholders against:	
Common	75,352
Preferred	2,765
Total	78,117

Proposal 4 — Resolution proposed by one stockholder on divestiture of Sea-Land Service, Inc.

Number of shares for:	
Common	741,246
Preferred	92,833
Total	834,079
Number of shares against:	
Common	33,544,801
Preferred	5,704,520
Total	39,249,321
Total shares voted	40,083,400
Number of votes:	
For	787,662
Against	36,397,061
Total votes cast	37,184,723
Number of shareholders for:	
Common	4,137
Preferred	179
Total	4,316
Number of shareholders against:	
Common	79,166
Preferred	2,935
Total	82,101

Discussion of proposals

PROPOSAL 1 — Appointment of Auditors

JOHN J. GILBERT, *New York, N. Y., a Stockholder:* I would like to know whether the Company has an internal auditor, and if the internal auditor reports to the auditing committee.

COLIN STOKES, *Chairman of the Board:* We do have internal auditors, and they do have the right to report to the audit committee at any time that they deem it necessary to do it. The audit committee, made up of all outside Directors, has a right to call them in, and it does from time to time.

CHARLES F. MYERS, JR., *a Director, and Chairman of the Audit Committee:* We have a very active audit committee, which has met three or four times this year. We have met independently with the outside auditors and the internal audit department, and the head of the internal audit department does report to the audit committee. The communication is good. It was our recommendation to the Board that the figures of the Company were in sound condition and were properly prepared. Recommendations made by the auditors come directly to the audit committee, and there's a freedom of movement between the two which gives a good basis of communications.

MR. GILBERT: How do we stand on accounts receivable?

THE CHAIRMAN: Our accounts receivable over six months old at the end of 1974 were $13,694,000, or 3.6%. At the end of 1973, they were $17,500,000, or 6.8%. It's not uncommon for foreign and government receivables to be over six months old in being collected; it's just the way some of them pay. But we've got a very low percentage of bad debts.

MR. GILBERT: There seems to be an epidemic of enormous foreign exchange losses, unauthorized, these days. We want to know whether there are strong protections here, responsible people.

DAVID S. PEOPLES, *Vice Chairman of the Board:* The foreign exchange losses last year were about $1,900,000. I think you may be referring to some of the losses that two or three of the large banks had in trying to speculate in foreign money. We do not do that. We do some hedging, but that is only to the extent of the accounts in foreign currencies and the funds needed in the short term for payment in foreign currencies. There is no opportunity for heavy speculation.

MR. GILBERT: Are there proper controls over that?

MR. PEOPLES: Yes.

MR. GILBERT: I asked Ernst & Ernst to cover all these questions because they are our outside watchdog. We should add this question about why dividends shouldn't be a proper tax deduction for business, for the payment of capital

borrowed from stockholders.

ROBERT D. NEARY, *Partner, Ernst & Ernst, independent auditors:* Let me say that I readily agree with the answers given. We have an excellent and open relationship with the Company's management and with the audit committee. The Company has always consulted with its auditors freely about current accounting developments, unusual transactions, any questions and problems as they arise, which we consider to be the proper relationship. On the question you asked about the deductibility of dividends, I don't feel that an auditing firm as such really has an opinion on that. As a personal matter, I've been impressed with the unfairness or inequities in double taxations ever since I went to college, so I would be in favor of that myself.

MR. GILBERT: The question of surprise visits is an old chestnut, but is there an area whereby you can pick the times when you want to check the inventories and things like that?

MR. NEARY: I assume you are referring to physical inventory?

MR. GILBERT: Or anything else—even to see if the plant is there.

MR. NEARY: We are in favor of that, on the physical inventories. As you know, you can't quite have a completely surprise physical inventory of an entire company, because obviously the auditor doesn't do all the counting and all the checking. But we do try to recognize the desirability of the surprise element by only allowing for enough time in advance of the physical that is actually necessary to set up the right procedure – you have to do that or else there would be chaos; by using different dates; and by not letting anyone know in advance how many of the outside or internal auditors will be present at a given time and particular location. Subsequently, the reconcilement of the physicals to the accounting controls and the receiving and shipping cut-offs give us, overall, satisfaction on this score.

ROGER LEPPERT, *Philadelphia, Pa., a Stockholder:* I was wondering if the internal audit could uncover the possible illegal activities of a subsidiary, and overseas. I am aware of some, and I'm just wondering if somehow you would have some way of finding them out.

J. A. HAGAN, *Comptroller:* I'm not aware of the matters of which you speak right at this moment. We investigate thoroughly any allegations of wrongdoing of the type that you are referring to here, and at this point we are not aware of any supportable claims of this nature. If you have information that I don't have available to me at present, I will appreciate it if you would bring it to my attention at the close of the meeting. *(Continued on page 10)*

Elmer J. Bennett, a stockholder from Newark, N.J., brought up a point of discussion. At right is Mrs. Joyce Gerald, RJR Foods.

(Continued from page 9)

PROPOSAL 2 – Cumulative Voting

MR. GILBERT: If you had let us know that you were going to have the meeting here in Winston-Salem, we would have withdrawn the part of our proposal where we mentioned the differences of opinion as to holding the annual meeting in Wilmington.

THE CHAIRMAN: Mr. Gilbert is right: he suggested last year, and two or three years in the past, that we meet in other places than Wilmington. Wilmington is a place where many, many companies meet, but we followed his suggestion to come here.

MR. GILBERT: Cumulative voting is like the House of Representatives: it's proportional representation. So many of the other good companies, like Sears Roebuck, Avon Products, United Aircraft, Procter & Gamble, have had cumulative voting. Now we have a lady on the Board, and I think there's no question that maybe if we'd had cumulative voting we would have had one earlier. I think the point is made, what we are standing for.

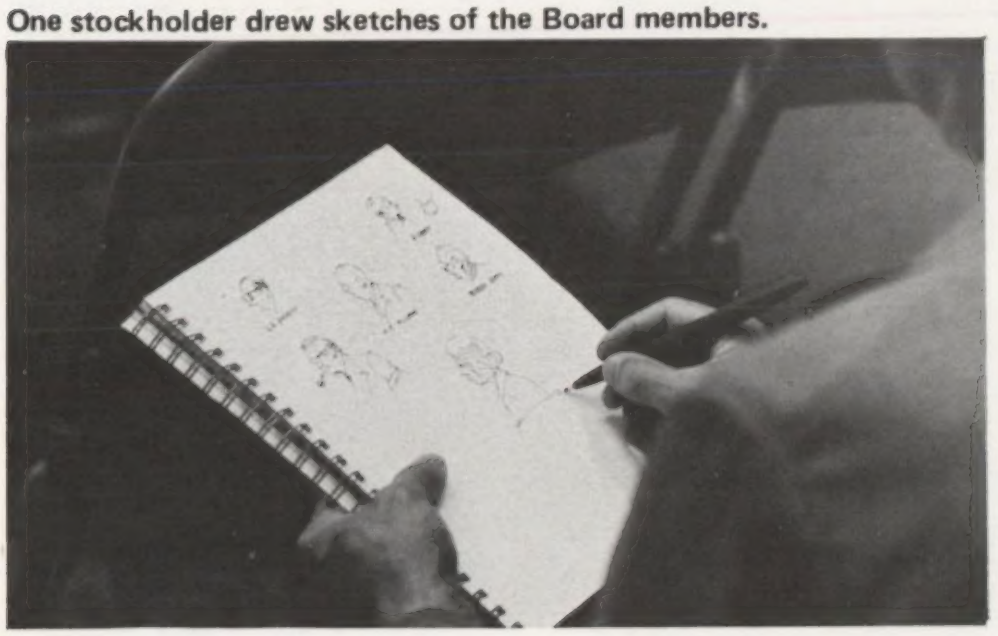
THE CHAIRMAN summarized the management's objections to the proposal, as appeared on pages 17-18 of the proxy statement.

PROPOSAL 3 – Restrictions on Stock Option Plans

MR. GILBERT: We've seen so many abuses of these option plans. In fact, that was quite a bit the trouble with the stock market. Many times the officers have to borrow money for them, and then the banks call the loans, and they have to sell the option stock, and then, boom, it goes down at the wrong time. There are so many abuses. Congress, when it authorized the tax-deductible feature for options, said it was an incentive to give a proprietary ownership, to become shareholders in American enterprise, and it negates that if they are going to be retiring in eighteen months. There are other ways of doing these things. Many companies are cutting these options out and are being just as successful, or more successful, with other ways of doing these things. But if we do have these stock option plans, let's have them well policed.

THE CHAIRMAN summarized the management's objections to the proposal, as appeared on page 19 of the proxy statement.

One stockholder drew sketches of the Board members.



PROPOSAL 4 – Divestiture of Sea-Land Service, Inc.

MR. GILBERT: I must say, in seconding the motion to adopt this proposal, that there are some stockholders I'm representing that are not in favor of it. But I myself feel that many times history has shown how the antitrust division of the Justice Department has forced these divestitures and each one of the companies became bigger than the original, so I don't think it hurt them any. I think this resolution perhaps is good, to have management study this. I know this isn't going to be carried, but it's healthy, I think, to bring this up.

NORMAN G. HINTON, *Scarborough, Ont., Can., a Stockholder:* This proposition is before the United States Supreme Court to divest United States Lines from Sea-Land or from R. J. Reynolds Industries. If that goes against the Company, how great an adverse effect will that have against the Company?

H. C. ROEMER, *Vice President and General Counsel:* There isn't anything before the United States Supreme Court at the moment having to do with Sea-Land and U. S. Lines that I'm aware of. Are you asking what will be the financial effect on Reynolds Industries and its consolidated subsidiaries if we do not succeed in acquiring U. S. Lines?

MR. HINTON: That's it, yes.

THE CHAIRMAN: When we entered into negotiations on United States Lines, we thought it would enhance and help the Company's business, and we would endeavor to carry out all of the steps necessary before any court to see that that acquisition is possible. We believe that it will be to our advantage if it's allowed to go through. Right at this point we do not know whether it's going through or not.

MR. HINTON: What will the effect be on the Company if it doesn't go through?

MR. PEOPLES: This has been a long and arduous attempt to acquire U. S. Lines. There was an agreement and a supplemental agreement. Under the supplemental agreement we would be required to arrange for the sale of U.S. Lines for our account if the acquisition were not permitted, or if it were thwarted by a government agency. That is somewhat moot at this point because outstanding today, in a Federal court, is an injunction which prevents us from knowing what U. S. Lines' operations are. We know nothing about them now. We have not since that order. We don't know whether they made money or lost money. The court also held that we could not implement the supplemental agreement, so that stands on dead center. Now to your question: if it stands on dead center, there is no effect on R. J. Reynolds Industries.

MR. HINTON: I was under the impression that U. S. Lines had been acquired by this Company.

MR. PEOPLES: U. S. Lines has not been acquired by Reynolds.

MR. LEPPERT: If I can't win everybody's vote, I want the people to at least start asking questions, like why was the proposal put there, why should someone else think that it would be advantageous to R. J. Reynolds to possibly consider the divestiture? There are things that I attempted to bring to the attention of R. J. Reynolds in reference to their subsidiary's activities, but this attempt was ignored. The question is, if certain activities are happening, if RJR doesn't know about them, why don't they know about them? If they

do know about them, why don't they do something? Some of the things that are going on are, for example: Protecting various employees who caused the deaths of innocent people while drinking and driving Company vehicles, and not terminating these employees even when convicted in a court of law. Closing eyes when illegal cargo was shipped in Sea-Land vans on Sea-Land ships, including supposedly empty shell casings, ultimate destination expected to be Communist China, after relay to different ships. American-made ammunition could some day be used to kill our children. Using Company equipment to ship illegal contraband for employees. Not terminating employees known to be involved and caught at illegal black market currency activities overseas. Two Company employees quit many months later, but they were never fired. Many employees were caught stealing and were dropped from the job, but were not fired. Sea-Land employees accused by United States military authorities, sometimes when the authorities had evidence of stealing U. S. Government property, they were not fired.

Quoting the *Wall Street Transcript:* "Sea-Land is mostly responsible for RJR's having a price/earnings ratio of about half that of Philip Morris." Now this affects the price of the stock. Interest and debt expense increased again from $40,606,000 in 1973 to $57,530,000 in 1974, nearly double what it was two years ago. Prior to taking over Sea-Land, our R. J. Reynolds was a recession-, depression-resistant type company. The more we come to depend on Sea-Land for earnings, the greater the danger of loss, when at the bottom of a business cycle. Ask yourself: would the dividend be safe in 1977 or 1978?

Now if someone doesn't want to vote for this proposal, they should at least, if nothing else, ask R. J. Reynolds, the parent corporation, about the activities of their subsidiary, because they are responsible for it, and corporate responsibility is becoming more important all the time.

Please think about these things to yourself and ask some questions.

THE CHAIRMAN: There are several of the things that you spoke of that I'm going to ask Mr. Roemer to address himself to, because I think this audience and the stockholders of the Company should be aware.

MR. ROEMER: Very recently some of these charges that you have now leveled, Mr. Leppert, which we regard as very serious charges, came to my attention, and I asked that they be investigated. I haven't got a report yet on those investigations. I would caution you, of course, that some of these charges relate to activities that are supposed to have taken place in Vietnam, and it may be very difficult to get to the bottom of some of these allegations. It would be very helpful to me if you could give me as much detail as you have on each and every one of these charges that you have leveled, because it is of the utmost importance to us to get to the bottom of them if we possibly can. I should add that some of these charges are new to me, I hadn't heard of them at all; so the more information you can give us, the more helpful it will be.

THE CHAIRMAN: I am sure you have information, and if you will just see Mr. Roemer after the meeting we'd greatly appreciate it.

MR. LEPPERT: I have a lot of documentary evidence to support these things, of course, because no rational person would just come out and dream things up. Some of these areas have already been covered by the Los Angeles *Times,* about a year and a half ago. But all my documents are in storage up in Toronto, because I have spent months there, so I don't have — I can't yank out a whole bunch of documents to give to you. But these documents do exist, and I will assist with it.

MR. ROEMER: The more you can give us, the quicker, the better.

THE CHAIRMAN: I'm sure as a stockholder of this

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Company it's to your interest and you would want to see that corrected, and so we will await hearing from you.

MR. HINTON: This was in *Barron's*, February 17, 1975, page 23: "Still in limbo is the final disposition of U. S. Lines, a dry cargo carrier. Its 1970 sale to R. J. Reynolds is being contested in the courts. The Federal Maritime Commission and the Interstate Commerce Commission approved the final $65 million transaction. The Justice Department is protesting the sale, largely for antitrust reasons. Justice also objects to a supplementary agreement which makes Reynolds liable for disposition of the line, together with payment of the purchase price, plus interest, in case of an unfavorable antitrust ruling."

MR. ROEMER: I think that bears out, Mr. Hinton, that we don't own it. You've gone into some of the litigation activities involved in our attempt to acquire U. S. Lines. If you like, I'll try to give you a summary of where we stand on that.

MR. HINTON: Would you, please?

MR. ROEMER: It's rather complicated, but I will try to do it as accurately and as simply as I can. The Federal Maritime Commission approved the transaction—by "transaction" I mean the acquisition of U. S. Lines by us—subject to certain conditions. The United States Court of Appeals reviewed that approval and set it aside, holding that the Federal Maritime Commission was without jurisdiction to grant the approval that it granted. The United States Supreme Court declined to review the U. S. Court of Appeals determination. In the meantime, the Interstate Commerce Commission, which also has some jurisdiction over the transaction, had approved the transaction subject to the same conditions that were imposed by the Federal Maritime Commission. When the Maritime Commission decision was set aside, the ICC reopened the matter for reconsideration. Just about three weeks ago, Division Three of the ICC decided that it was without jurisdiction to approve any aspect of the transaction, other than those aspects of shipping that are under the regular and routine and normal jurisdiction of the ICC, to wit, the coastwise and intercoastal trade, which is not a very large part of this transaction. We have a right to ask the ICC to reconsider that. We also have a right of judicial review of that ICC determination. In addition, the Department of Justice brought an action against us in December of 1970, seeking to enjoin our acquisition of U. S. Lines. The status of that action, which is lodged in the United States District Court for the District of New Jersey, is that the Court has entered a preliminary injunction prohibiting the acquisition until further order of the Court, and prohibiting implementation of the so-called supplemental agreement to which Mr. Peoples referred a few minutes ago. That's where it stands. If you have any further question, I'll be glad to try to answer it.

MR. HINTON: What will be the cost against current earnings when you have to write this off, if you have to write it off?

MR. ROEMER: I'm not sure I understand your question, but I think you are asking what happens financially if we don't get it.

MR. HINTON: That's right.

MR. ROEMER: Well, for one thing, we don't make the money that we think we could make if we got U. S. Lines. I don't know what amount that would be, and I don't think anybody else does.

MR. HINTON: It's only going to cost $65 million, is that right?

MR. ROEMER: The price is $65 million, plus 8% interest from November 9, 1970, plus 6% interest on deferred payments of interest. That's about $5.5 million dollars a year in interest.

MR. HINTON: That would go against 1975 earnings, or whichever year's earnings it was in, is that it?

MR. ROEMER: I don't know; you will have to ask the accounting personnel that one.

MR. PEOPLES: I think you are presuming too much there, Mr. Hinton. We would have to be able to sell U. S. Lines under the supplemental agreement. Now what you are posing, I think, is that we might sell it for less than $65 million. I'm no secondhand dealer, but I'd love to have it for $65 million.

THE CHAIRMAN summarized the management's objections to the proposal, as appeared on pages 20-21 of the proxy statement.

Remarks of the Chairman

Colin Stokes

Let me extend a warm welcome to you, our stockholders—those residing in the Winston-Salem area and those who have come to Winston-Salem for this meeting.

This year's meeting is especially significant for us. It is the first Annual Meeting your Company has ever held in its home town of Winston-Salem. Furthermore, we are meeting in this convention center just a few blocks away from where our founder—Richard Joshua Reynolds—started his business 100 years ago and a few blocks from where he lived before Reynolda House was built. For all we know, it could have been 100 years ago today that "Mr. R. J." opened his first little plug tobacco factory. It *is* known that it was a day in April, 1875, but the exact date is lost in time.

On numerous past occasions we have considered holding the Company's Annual Meeting in Winston-Salem. This year we felt that there was no better way to begin marking our centennial year than to hold our Annual Meeting in the community with which our Company shares a rich pride and long heritage—our home town. I would like to express special thanks to Mr. John Gilbert and his associate, Mr. Eckenroth, for also making this suggestion at last year's Annual Meeting. Mr. Gilbert has suggested it on the other previous occasions, too, and we thank him.

Many of you in the audience today have at one time or another, or in one way or another, contributed to the success of our Company. For your contribution, I say thanks to each of you. I am certain there are enough anecdotes and memories about our Company in the minds of those of us present to fill several volumes. We couldn't publish the entire story of our Company's first 100 years, but we did try to capture the essence of our history in the special 100th anniversary booklet.

Getting ready for this meeting is not something we take lightly. The Board of Directors has the responsibility to see that your Company functions in a manner that protects and justifies your investment. And as with any responsibility, there must inevitably come accountability. We are accountable to *you,* and that's what we are here for today.

While on the subject of your Directors, let me say that as our business has changed over the past few years from a single product line—tobacco—to a business of many products and services, your management has seen the need for advice and guidance from Directors with wide experience and knowledge in many fields.

GUIDANCE NEEDED FROM MANY DISCIPLINES

Later today you will be voting on the Directors, two of whom are new—Dr. Juanita Kreps and Mr. John Macomber. We have asked them to become members of our Board because we feel they will bring new, fresh and meaningful ideas to us. We believe a Board of Directors should be made up of as many disciplines as possible to guide a worldwide, multinational corporation such as ours.

Speaking of a worldwide company, it might be of interest to you to know that about one-third of our sales and revenues is derived from outside the United States and we have approximately one-third of our employees living outside of this country.

The sales and revenues of your Company climbed 37 percent during 1974 to a record level just above four and

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one-half billion dollars. Net earnings, which were also at record levels, were up 18 percent to 310 million dollars. Detailed explanations of your Company's financial performance during 1974 are presented in the Annual Report. Therefore, I do not believe it is necessary to repeat them here. I would, however, like to review briefly the results of the first quarter of this year.

TAX REDUCTION ACT HAD ITS IMPACT

We reported record sales, revenues and net earnings for the first quarter of 1975. Sales and revenues of the Company were up 11 percent to $1.1 billion and net earnings increased 2.8 percent over the same period last year. On a fully diluted basis, net earnings per common share increased three cents to $1.24 per share. This was accomplished despite a 10 percent increase in the Company's effective tax rate, compared to the first quarter of 1974.

Our provision for income taxes for the first quarter of this year reflected the estimated effect of the recently enacted Tax Reduction Act. This provision was 67 percent of earnings before taxes, compared with 61 percent for the first quarter of 1974. This higher tax rate is the result of several factors, including higher taxes on petroleum earnings.

Looking at the first quarter results by subsidiaries, we see that tobacco sales were $739 million, 15 percent higher than last year's first quarter, primarily as a result of price increases we instituted in 1974.

Earnings from operations in tobacco were $116 million, 18 percent higher than the same period last year. But the effect of the 1974 price increases on these earnings was partially offset by continued increases in leaf and other operating costs, including costs associated with developing and introducing new brands.

Transportation revenues for the first quarter were $182 million, down 5 percent from the first quarter of 1974, as improved rates and operating efficiencies substantially offset some negative factors.

EFFICIENCIES OFFSET NEGATIVE FACTORS

The negative factors included the absence in 1975 of revenue from the Puerto Rican service, which was sold in September of last year and which contributed $25 million to first quarter 1974 revenues. Also, there were volume declines in certain other services, which reduced 1975 revenues by $20 million. These volume declines reflect a continuation of the depressed world economic conditions. Transportation earnings from operations for the first quarter of 1975 were $16 million, more than 6 percent over the first quarter of 1974, but below the levels achieved during the last three quarters of last year.

In our petroleum business, first quarter sales were up $25 million, 30 percent over the same period last year. Petroleum earnings from operations were 37 percent greater than the 1974 first quarter.

Sales by the Company's other businesses—foods and aluminum and packaging products—were up less than one percent from last year, principally because of the increased prices of raw materials. Volume in these two subsidiaries during the first quarter was generally lower than a year ago, reflecting the present low level of national economic activity.

Earnings from operations fell 16 percent to $7 million, from the comparable period in 1974. This was due primarily to continuing raw material and operating cost increases in the aluminum products and packaging business.

As you know, the Board of Directors last October increased the quarterly dividend on the Common Stock by five cents, bringing the quarterly rate to 72 cents per share. Except for 1971, when federal guidelines were in effect, the total dividend payment per common share has increased each year for the past twenty-one years. Last year was the seventy-fifth consecutive year of dividend payments on the Common Stock.

Our dividend policy is to pay the shareholders a fair return on their investment in the Company. In determining such policy, consideration must be given to the economic conditions of this country and the world today and our plans for growth and needs for capital improvement funds. Under today's conditions, we think a pay out of approximately 40-45 percent is appropriate. This would give the shareholders a fair return on their investment as well as leaving money for the Company to use for expansion and other purposes. Naturally, there can be no assurance as to this policy in the future since it is dependent upon the earnings and financial condition of the Company and other factors.

ECONOMIC CLIMATE DICTATES CAUTION

In view of the state of the world economy I must advise against attempting to predict our 1975 performance by assuming a continuance of our last year's growth rate. I am not deliberately sounding a note of pessimism. I am merely urging caution and prudence in view of today's very volatile economic climate.

Unfortunately, if you did not read beyond the headlines of some of our newspapers, you would surely think the end of the world was coming. Throughout 1974, the media were filled with reminders of the specter of the Great Depression. Every possible indicator was used to draw comparisons between the setbacks of last year and the conditions that followed the crash of 1929.

Unemployment is high, not only in this community but throughout the state and the nation. While many companies have had extensive layoffs, we have not had to lay off any of our people in the Winston-Salem area. As a matter of fact, we have been doing a modest amount of hiring in the Tobacco Company in recent weeks. The business of that subsidiary is good.

EXPECT CONTINUED STABILITY IN TOBACCO

We expect a continued stability in all tobacco-related operations, enabling the Company to employ again this year a large number of students and temporary employees during the summer months. Our seasonal employment in the handling and processing of this year's tobacco crops is also expected to be normal.

Throughout the last year I have done a considerable amount of traveling all over the world, visiting our widespread operations. I can personally assure you that all

parts of your Company are in good hands. During these visits I have been particularly impressed by our employees' dedication to their work, knowledge of their business, interest in the growth of the overall Company and a desire to make their part of the Company a larger factor in their part of the world. *We have strength in the management of our various businesses.*

While I'm talking about the international scope of our Company, let me touch on one very important step we have taken to increase our share of the international tobacco business.

TRIBUTES TO ANGOTTI, GALLOWAY

We have promoted Mr. William S. Smith from Chairman of Tobacco Company to Vice Chairman of the parent company. He will be working in expanding the international tobacco business in addition to other duties as Vice Chairman of Reynolds. His move will put us in a better position to concentrate on the worldwide cigarette business. It is growing faster than it is growing in this country. Let me assure you that one of our primary goals in the immediate future is to get a significantly larger share of the tobacco business around the globe.

Before ending these remarks, I would like to pay tribute to two members of the Board who are today retiring as Directors: Mr. A. H. Galloway and Mr. S. A. Angotti. I am sure that you join me in extending warmest thanks for their years of service and their valuable contributions as employees and as Directors of the Company and wish for them continued good health and happiness for years to come.

To all of the Company's shareholders I want to convey appreciation for their interest and support. To the Company's employees, present and past, I express gratitude for their loyalty and their dedication to creating and selling quality products and services—which will be our objective in the future as it was Mr. Reynolds' in the past.

AIR OF CONFIDENCE PERVADES REYNOLDS

Throughout your Company you will find an air of confidence about our future. We are proud of our Company's having reached its 100th anniversary and we are proud of our history. But we are looking forward. We intend to learn from our past mistakes. Build on our past successes. And do everything in our power to launch our second century as firmly and securely as Mr. Reynolds launched our first 100 years.

One of the first major steps to get us moving into our Company's second century is to announce today that we will soon commence construction of a corporate headquarters building for R. J. Reynolds Industries in Winston-Salem.

As many of you from this area know, we have long since outgrown the available office space in the Reynolds Building at Fourth and Main.

The growth of the Tobacco Company over the years, plus the recent moves of the RJR Foods headquarters and the Sea-Land financial operations to Winston-Salem, has crowded the Reynolds Building and forced us to rent space at several other locations here in Winston-Salem.

We are already cramped for space and should be even more so by the time our new building is ready for occupancy. This should be in late 1977.

When deciding where to put our new building, we had to face many location choices. One of our first decisions was to stay here in the Winston-Salem area.

In settling on a specific site, we decided to utilize land that the Company has owned for a number of years. It is an excellent site. It is open, clear and ready for construction. It is located on 33rd Street, just across from the Whitaker Park cigarette plant and near the Bowman Gray Development Center.

When completed, our new building will house the staff of the parent company and the headquarters staffs of both RJR Archer and RJR Foods. The Tobacco Company will remain in the current Reynolds Building downtown, and that company will have enough room to meet its present needs and accommodate future growth.

I told you at the beginning of my remarks that no one knows for certain on just what day in April, 1875, Mr. Reynolds opened his factory here in Winston-Salem. I hope the minutes of this meeting, Mr. Secretary, will record the exact date in April, 1975, we announced the decision to build our new world headquarters here in Winston-Salem.

For a more detailed review of our operations during 1974 and a discussion of our plans for 1975, I will now turn the program over to Paul Sticht, our President.

Remarks of the President

J. Paul Sticht

It is always a pleasure to appear before our stockholders and report record sales and earnings.

1974 was a year in which nothing remained predictable or static in the business world. We came to expect the unexpected, and we were seldom disappointed.

However, in getting through 1974, we found that many of your management's earlier decisions withstood not only the test of time, but also the winds of a changing economic climate. Last year convinced us that we have the capacity to change to meet shifting markets and economic trends. And you can bet that we are working full-time to increase that capacity.

Earlier this year our Company was recognized by a respected business publication as one of the five best managed companies of 1974. Of course we were flattered, and we were likewise surprised. We didn't think our performance was all that good. Although our earnings were reasonably good, they were not as good as we felt they should have been.

Perhaps the best phrase that I can find to describe Reynolds' performance last year is some Pennsylvania Dutch that I remember while growing up in that area. The expression is: we were "catching up our behind." And that's exactly what we were doing last year, particularly in our shipping business, which had undergone several years of development during which we had very little profit return.

Let me briefly review how we did that "catching up."

During 1974 Reynolds continued to maintain its leadership in the U.S. tobacco industry. Our brands accounted for approximately one-third of the total domestic market.

However, we are not totally pleased with the share we have in some markets. There are some markets where we should be stronger. One of our principal objectives this year is to strengthen our position in these weaker markets, but not at the expense of the markets where we are already strong.

Our old standbys, Winston, Salem and Camel, were among the top ten brands last year, with Winston retaining its overall leadership in the domestic market.

DIRECTION MORE IMPORTANT THAN VOLUME

Perhaps more important than the sales volume of our brands is the overall direction in which we are moving. Last year we had not only the best selling but also the fastest growing and the most innovative cigarettes on the U.S. market.

Winston was the number one selling cigarette; Vantage was the fastest growing cigarette in America; and, with the introduction of More, we have what we think is the most innovative.

Vantage, introduced in 1970, is currently growing about 30 percent annually, and ranks 15th nationally.

More, which went into test market last October, is the nation's first 120mm cigarette. We believe More is the most innovative, full-flavor cigarette to be placed on the market since the introduction of filter cigarettes. Initial consumer response was so encouraging in test markets that we have just begun to sell More nationally.

CAN NOW MOVE AGGRESSIVELY ABROAD

In the international tobacco market, I regret we cannot say we are first. Frankly, we were late getting started and we were not aggressive enough. We found that simply exporting our domestic brands to foreign markets did not provide a product with the appropriate taste for those markets. As a result, we have changed our approach, and feel we have now established footholds in the key international markets.

Reynolds' brands are now sold in 140 countries, with local manufacturing in 17 countries outside the United States. With this working base in the international market, we believe we can now move aggressively to take advantage of the opportunities that are now open to us.

One basic philosophy is important to our tobacco business. We must, more than ever before, try to understand public tastes . . . strive to anticipate those taste changes before anyone else does. Our primary goal is to improve our share of the total cigarette market, with a major entry in every segment of the market.

Our Company has other interests abroad . . . not only in tobacco but also in transportation and petroleum, which I will discuss in a moment. About a third of our revenue is

generated abroad. With interests as wide-ranging, geographically, as we have, the marketing of our products and services is fairly complex. To help guide us in our worldwide business ventures, we recently established an International Advisory Board composed of a number of prominent international businessmen and industrialists. This prestigious and helpful board will hold its first meeting here in Winston-Salem in the early part of May.

SEA-LAND DOUBLED CAPACITY ON SOME ROUTES

Let's move now from tobacco to Sea-Land Service, Reynolds' far-flung transportation subsidiary.

Last year was especially significant for Sea-Land. It was the first full year that all eight of the SL-7 containerships were available for operation.

With full deployment developed in the last half of the year, when the two new SL-18's were ready for service, Sea-Land was able to more than double its capacity on routes between the U.S. Gulf and South Atlantic coasts and Northern Europe.

Some stockholders may not know that Sea-Land is an unsubsidized shipping line. There are 11 major United States shipping lines that receive subsidy assistance from our government. There are only four that are unsubsidized.

We prefer the flexibility of being unsubsidized to the restrictive nature of government support. In short, we want to be totally responsible for our operating effectiveness and financial results. We want to be unencumbered by government dictation and restrictions that are the result of subsidies. Subsidies restrict flexibility, and flexibility, dependability and speed are keys to Sea-Land's success.

SEA-LAND FLEET EXCEEDS ANYONE'S

But while we prefer to remain unsubsidized, we must recognize the problems presented by competing foreign and U.S. flag lines that are subsidized by their governments or, in some cases, are government owned and operated. A good example is the Soviet Union fleet, called "Sovinflot."

You may have heard rumors and some press reports that the Soviets are on the verge of taking over world shipping with the largest and fastest ships afloat. Some reports have said as many as 300 new containerships are being built. Some of them are supposed to be in the SL-7 class.

To our knowledge the Soviet Union presently has some 26 containerships under construction. While an impressive number, we have also learned that the largest of these vessels is only slightly larger than our SL-18 class in size and is significantly smaller than the SL-7's. Also, the top speed of these vessels will be 22 to 23 knots, not 33 knots as rumors have indicated.

It is not completely without pride that I remind you that by investing our own capital in the spirit of the free enterprize system, Sea-Land has built and operates a container fleet that exceeds anything anyone else has produced to date.

We are proud of our independence and we are still interested in doing our part to insure that the overall shipping industry remains stable and profitable. For this reason, Sea-Land is a member of a number of conferences that operate in various trade routes on established tariff schedules.

While we see conference membership as an advantage, let me assure you that should any conference's rates or other practices prove detrimental to Sea-Land's best interests, we would first attempt to have the conditions corrected, and failing that, we would look out for Sea-Land's interests first. The current reduced level of world trade has resulted in competitive practices by some foreign flag carriers that we cannot ethically match. We intend to take whatever steps necessary to be competitive, either within or outside the conference structures.

At this point, let me say just a few words about the current relationships we have with the unions that are a part of the Sea-Land operations.

The labor climate has been good at Sea-Land during the last couple of years. Contracts have been effected without any significant work stoppages. It would appear that for the first time in recent history, both sides have found a common ground and are dedicated to furthering the viability and expansion of Sea-Land's service to its customers around the world.

NATIONS BECOMING MORE INTERDEPENDENT

Let's get back to some specifics about Sea-Land's operations. An increase in earnings from operations from $16 million in 1973 to $141 million in 1974 sounds great. But when you compare that with our some $1.5 billion investment, the amount of that increase tends to lose some of its luster. On the other hand, the new fleet was only fully deployed in the last part of the year.

Don't misunderstand me. I am not saying that Sea-Land had a bad year . . . it had quite a good year. What I am saying is that Sea-Land's earnings must increase even more before we begin to accrue the return we expect on our investment.

What 1975 holds for Sea-Land is difficult to predict. History indicates that the world shipping industry is highly cyclical. However, we believe that the nations of the world are becoming more and more interdependent. As this interdependence increases, there will be a leveling off of the highs and lows. To be sure, there will always be some peaks and valleys . . . but less so than in the past.

FIGURES DON'T TELL AMINOIL'S WHOLE STORY

Before I move on, I just want to say that we have had word that our last employees are safely out of Viet Nam and Sea-Land is pretty well out of there with everything that is not nailed down.

Turning now to American Independent Oil Company, our international petroleum subsidiary. The turmoil in the petroleum industry last year needs little comment.

Aminoil's figures tell us that it had a good year last year. But figures don't tell the whole story. Most of the revenue and earnings from operations increases resulted from the quadrupling of posted prices announced by the members of the Organization of Petroleum Exporting Countries. It must

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be noted that the substantial earning increase of Aminoil was largely absorbed by additional taxes paid to the OPEC member countries where the company's investments are located.

The recently passed Tax Reduction Act is likely to have a significant effect on our Company's consolidated net earnings in 1975. As usual with complex tax laws, the total effect of the Act will be difficult to measure until the Internal Revenue Service issues regulations setting forth its interpretation of the Act.

For example, it is now clear that we will not be permitted to offset excess foreign tax in 1975 on foreign oil-related income against U.S. taxes on foreign non-oil-related income. If the Tax Reduction Act had been in effect during 1974, the provision for income taxes would have been approximately $11 million higher and reported earnings per share would have been lower by 26 cents per share on a primary basis and 22 cents per share on a fully diluted basis. (We think "Tax Reduction Act" is a misnomer: to us it is going to be the "Tax *Increase* Act.")

It also seems clear to us that the Act will do exactly the opposite of what our country's energy policies should do. We believe the result will be less oil at higher consumer prices. In fact, we are now reviewing our exploration program to determine the extent to which we may wish to drill for new sources of oil under this new tax law where the after-tax cost of drilling will be substantially higher.

The economic upheaval in the petroleum industry was also shared by the food industry. Ingredients and container cost went totally out of sight, forcing many price increases of RJR Foods' products.

SIGNS POINT TO EASING OF PRICE PRESSURE

Current signs point to an easing of price pressure. Drops in sugar prices and other commodities have helped considerably. Although we continue to feel the pressure of recent dramatic cost increases in labor, cans and other packaging materials, we just last week announced price decreases on a number of food items.

There is much evidence that the housewife is buying more of the basic foods and less frozen and convenience foods. Rapidly rising prices placed considerable pressure on the convenience-food lines.

While these changes in the consumers' buying habits have had an effect on the volume of the Foods Company's sales, we are taking steps that we believe will offset some of these reductions.

During 1974, construction was begun on a manufacturing and distribution center in New Jersey where we will make Hawaiian Punch and other food products. This plant will reduce costs and allow the company to continue providing top-quality beverages and foods at reasonable prices.

The philosophy of the Foods Company is much the same as that of the Tobacco Company; that is, striving to provide the consumer with high quality, highly formulated products.

The Foods Company is still a relatively small part of the Reynolds family, and by acquisition or expansion of existing lines or adding new lines, we hope to rapidly expand this business while maintaining quality profit opportunities.

RJR Archer, our aluminum and packaging company, like Foods is relatively small. About 32 percent of Archer's business is manufacturing packaging materials for Reynolds affiliates, and this business is holding up very nicely.

On the other hand, Archer's outside packaging business is down. Because the company is a packaging converter type of operation, its level of operation will vary with the business levels of its outside customers. And during the second half of 1974, companies using packaging materials operated at somewhat lower levels than in the past, due to domestic economic conditions.

In Archer's Aluminum Division the situation was much the same. The decline in aluminum business was particularly felt in those products which are used in residential construction. Archer's Filmco Division, which serves the domestic and international supermarket industry, overcame an acute resin shortage to have a successful year.

Last year Archer added a new dimension to its product capability. Archer acquired Artistic, the nation's largest producer of extruded polypropylene ribbons and bows. Artistic's line of consumer products is highly compatible with Archer's giftwrap operations.

REYNOLDS BECOMING INCREASINGLY COMPLEX

That's a review of our operations last year. Those are the tangible aspects of our Company. Now let me turn to something just as important, if not more so. I want to talk about an intangible part of our Company, or perhaps better stated, the nature of our Company.

A reporter asked us recently how we managed the business. To oversimplify, we pointed out that you have to decide whether you want to be partners with your subsidiary managements or to be their auditors. There is very little in between. We've chosen the role of partners.

Colin and I feel that it is a joint responsibility of ours and the chief executive officers of the subsidiaries to assure success of the business.

We do not make the key decisions involved in our various businesses. However, we do participate in the deliberations leading to those decisions. That way, we seldom encounter any big surprises.

Through this close working relationship, the Board of Directors is kept fully informed. And, of course, we do consult with the Board on all major decisions.

The job of managing our complex group of businesses is not easy task. While all have a common denominator, it requires expertise in many areas. We no longer market a single line of products. We have acquired, through orderly growth, not only other products, but services as well. Today our operations spread far beyond Winston-Salem, as Colin stated. Nearly two-thirds of our employees are now located outside of North Carolina, with almost a third outside of the United States. We are becoming increasingly a more complicated company.

We clearly see the need to broaden the sophistication, knowledge, understanding and experience of our personnel. And we are working hard to that end.

Now, let me echo Colin's words of appreciation for your being here today. And I would add that though we do not forecast or predict the future of our business, I sincerely hope that at this time next year we will be able to report that we did, indeed, "catch up our behind."

Discussion during Annual Meeting

An active speaker among the stockholders was John J. Gilbert of New York. At right is Mrs. Joyce Gerald of RJR Foods, who assisted with communications from the floor.

Following is a summary of the discussion during the meeting, considered to be of interest to Stockholders.

BOARD OF DIRECTORS

JOHN J. GILBERT, *New York, N. Y., a Stockholder:* I think we should find out something about the activities of our fine Board of Directors. How was the attendance at the Board meetings, how many meetings did they have during the year, how long did they last, and where were the meetings held?

COLIN STOKES, *Chairman of the Board:* We had twelve regular monthly meetings last year, plus one special meeting and one annual meeting. The annual meeting was held in Wilmington, Delaware; the special meeting and all twelve regular meetings were held in Winston-Salem. Attendance, I think, was excellent. It was an average of fifteen, or 88%, at the twelve meetings; nine at the one special meeting. The length of the meetings ran anywhere from fifteen to twenty minutes or a half an hour at the annual meeting, up to seven or eight hours at the December budget planning meeting.

MR. GILBERT: And the fees?

THE CHAIRMAN: The outside Directors are paid $833.33 per month; $250 per meeting that they attend; $250 for any committee meeting held on the day of the Board meeting; $250 for a stockholders meeting; $500 for any committee meeting held on other than a Board meeting day.

MR. GILBERT: Is this true of the inside Directors?

THE CHAIRMAN: No. Inside Directors do not receive anything for committee meetings or for Board meetings.

SHIPS' REGISTRY

MS. IRMA BAKER LYONS, *Miami, Fla., and Blowing Rock, N. C., a Stockholder:* I was wondering about the Sea-Land ships: what is their registry?

THE CHAIRMAN: Primarily United States flag.

MS. LYONS: If these ships were under another flag, perhaps we could make a little more money?

J. PAUL STICHT, *President:* The United States business, the business of the government, the military business, is very important to Sea-Land. That's part of their total business and that, for example, can only be handled on U. S. flag carriers. That's one of the reasons we have the ships under U. S. flag. We think in total that if it's possible to operate our business under U. S. flag, we should do that. We do have some ships operating under foreign flags, where it's appropriate that they be under foreign flags. Ships, for example, operating between the Mediterranean and north Europe are foreign-flag ships. They happen to be leased ships, but they are foreign flag. Not a hundred percent of the Sea-Land fleet is U. S. flag.

(Continued on page 20)

(Continued from page 19)

FOREIGN INVESTMENTS

MS. LYONS: We have such large investments abroad—in South America, for example, and the Venezuelan president has taken a big swing to the left and is trying to acquire a good portion of our American companies. Where do we stand in that area? Are there any threats to our investment in, say, Venezuela, as a starter?

THE CHAIRMAN: We are worldwide, and of course that's a calculated risk you stand in certain countries. Right now, we don't know of anywhere our equipment or personnel is in jeopardy other than in Vietnam; and Mr. Sticht alluded to that in his speech when he said that all of our personnel were out of there, and most of our equipment.

TOBACCO TAX COUNCIL

ROGER LEPPERT, *Philadephia, Pa., a Stockholder:* How much money was spent on the Tobacco Tax Council for last year?

THE CHAIRMAN: Mr. Wade, do you remember that figure?

CHAS. B. WADE, JR., *Senior Vice President:* The amount was about $450,000.

MARIJUANA

MR. LEPPERT: Do we have any direct or indirect support for the legalization of marijuana?

THE CHAIRMAN: No, sir. It's not a legal product, and this Company does not participate or advocate it in any way.

MR. LEPPERT: I understand it's not legal now, but there were some lobbyists in Congress who were lobbying that possibly the law could be changed. But we're not involved; that answers the question.

MR. WADE: We've had many inquiries from time to time as to whether or not we had any interest in this, and rumors were to the effect that we did. We made public statements, at all opportunities that we had, that we had no interest in it, we were not experimenting in it, we did not have any farms that were growing it, and we wanted nothing to do with it.

SAFETY OF DIVIDEND

MR. LEPPERT: Do you feel that our dividend is safe for the next two years?

THE CHAIRMAN: I made the statement, if you recall, in my remarks - -

MR. LEPPERT (interrupting): Excuse me. I understand you have already made that statement, but in the event that world shipping could take a great slump because of bad times, could that jeopardize - -

THE CHAIRMAN: All I could say to you is that economic conditions at the time that we consider it have to be taken into consideration, the financial position of all parts of the Company, not only our transportation but all parts of the Company. Our finance committee meets quarterly to discuss and review our dividend before we declare it. That's as far as I can go in predicting what it will be in the future. I will say we have paid one for seventy-five years.

Among the stockholders who were prominent in the general discussions were Roger Leppert of Philadelphia (at top), Ms. Irma Baker Lyons of Miami (middle) and Norman G. Hinton of Scarborough, Ontario, Canada (bottom).

CIGARETTE PRICES

MR. LEPPERT: As we all know, the cigarette tax rates are quite different from one state to another. It's as low as two cents a pack in North Carolina and it goes as high as twenty-one in Connecticut. Does a package of cigarettes retail for nineteen cents less in North Carolina than it does in Connecticut, and if not, would there be a reason for it?

THE CHAIRMAN: It does, at least that much less, because they have the same cost from the manufacturer, they have the same Federal excise tax, but they have different state taxes. As far as how they retail, that's beyond our control. Whether you are buying cigarettes at a supermarket or at a drug store or a tobacco shop or vending machine or whatnot, those prices may vary and thus the differential could be greater or less. As far as we are concerned, we sell them for the same price and they have the same excise tax on them.

RELATIONS ABROAD

MR. GILBERT: Now we know about the Arab boycott. How do we stand on this situation?

MR. PEOPLES, *Vice Chairman:* None of our businesses have been boycotted.

MR. GILBERT: So you have good Israeli relations too?

MR. PEOPLES: Oh, I'm sure we do.

THE CHAIRMAN: We try to have good relations everywhere.

CONVERSION OF PREFERRED STOCK

MR. LEPPERT: Page 30 of the Annual Report states that "The Company may redeem the Preferred Stock after June 30, 1979." You don't have to, you're not legally obliged to?

THE CHAIRMAN: That's correct. It's the Company's option as to whether or not it wants to call it in.

RJR FOODS: PACKAGE INSTRUCTIONS

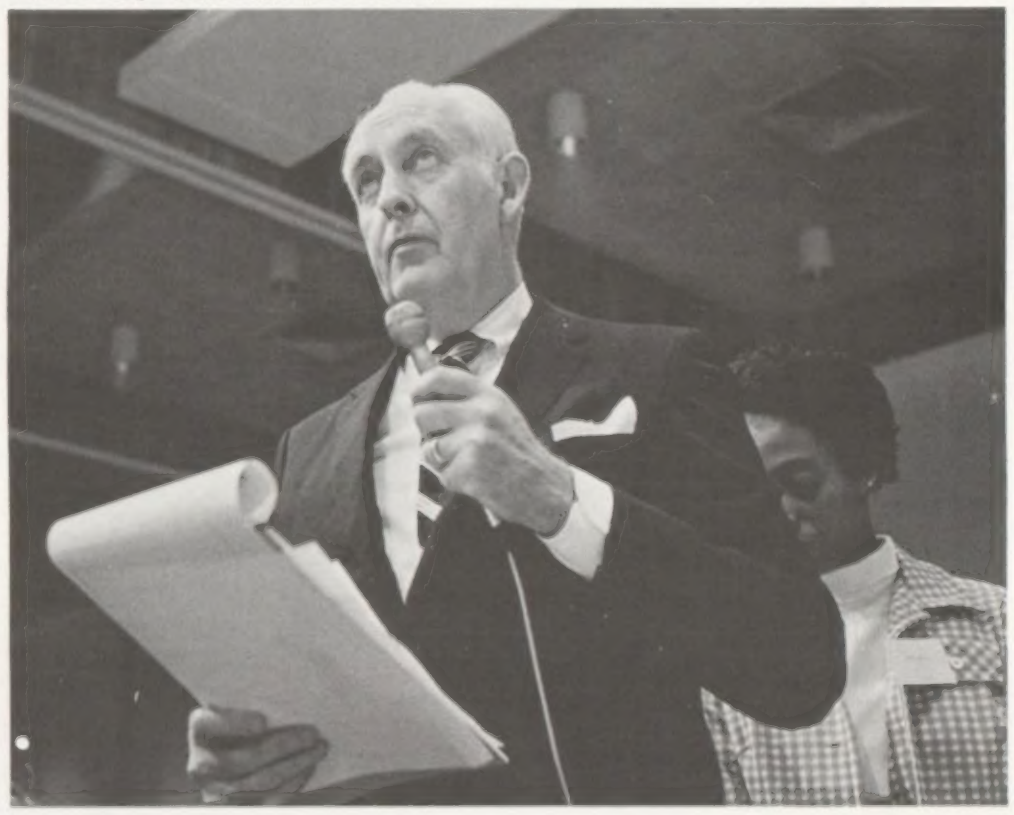
MR. GILBERT: My brother Lewis, who is a bachelor, wanted me to bring this up. He has a cooking problem, about our College Inn Egg Noodles and Chicken: it seems that there are no instructions on it, and there should be.

THE PRESIDENT: Mr. Gilbert, I'm glad you brought this up. If there are no instructions on there, I can say that there should be. When you come to our meeting next year, I guarantee that there will be. If our stockholders are at all curious about this product, they can buy it at their local friendly neighborhood grocery; and while there are no instructions on the product at the moment, as you say, simply empty the contents in a pan and heat until warm!

MR. GILBERT: There is another thing you should watch on your food packages, and that is to start showing microwave timings. It's about one-quarter of the time, and you can overcook things. I think that covers it. I think you've had a beautiful meeting here, the hundredth anniversary.

THE CHAIRMAN: Thank you very much, Mr. Gilbert.

William D. Tucker, Jr., of the New York law firm of Davis Polk & Wardwell, addressed the Board.



Reynolds forms International Advisory Board

A group of prominent international businessmen and industrialists assembled in Winston-Salem in May for the first meeting of Reynolds Industries' International Advisory Board.

The Board was formed late last year. In their advisory capacity, members will help the Company materially in considering guidelines for its policies and operations outside the United States.

"Our Company and its subsidiaries have become increasingly active internationally in recent years," Reynolds Industries Chairman Colin Stokes said when the Board was announced, "and we expect to benefit substantially from the guidance of persons in preeminent positions of leadership in other countries."

Three Reynolds Industries executives are on the International Advisory Board: Stokes, J. Paul Sticht, President, and Chas. B. Wade Jr., Senior Vice President and secretary of the Advisory Board.

Other members are: Erling S. Lorentzen, President of Aracruz Celulose S.A. and of the Lorentzen Group, Brazil; Donald S. McGiverin, President, Hudson's Bay Co., Canada; Hermann Josef Abs, Chairman of Supervisory Board, Deutsche Bank A.G., Germany; F. O. J. Sickinghe, Chairman of Board of Management, Verenigde Machinefabrieken N.V., Holland; Chujiro Fujino, Chairman, Mitsubishi Corp., Japan; Ronald Grierson, retired businessman and former Director General for Industrial Affairs, EEC, United Kingdom; and A. K. Davis, retired Chairman of Wachovia Bank & Trust Co., N.A. and former President of the American Bankers Association, United States. (Davis has worked with the European Common Market on agricultural problems.)

Additional members of the International Advisory Board will be announced later.

Winston to be made in Spain, Greece

Winston will soon become the first American cigarette to be manufactured in both Spain and Greece.

In Spain, R. J. Reynolds Tobacco Company has signed a licensing agreement with Tabacalera, S.A. Tabacalera, a government corporation that handles all tobacco manufacturing and sales in Spain, plans to build a new cigarette plant near Madrid, where Winston will be made.

The brand is now being exported to Spain from the United States and is the best-selling foreign-made cigarette in the country.

In Greece, a licensing agreement for the immediate production of Winston was signed between Reynolds Tobacco and Karelias Bros. & Co. Inc. of Kalamata, Greece. Karelias Bros. is Greece's largest cigarette maker, with a 38 percent share of the Greek market, and will manufacture Winston in its modern Kalamata plant.

Greek-produced Winstons will be made from the usual world-renowned blend and the manufacturing process will be the same used in Reynolds' own plants.

Three elected to high posts at Reynolds

The Board of Directors of R. J. Reynolds Industries has elected William S. Smith a Vice Chairman of the Corporation. The Directors also announced the elections of Wm. D. Hobbs as Chairman and Chief Executive Officer of Reynolds Tobacco Co. and Rodney Austin as a Vice President of Reynolds Industries.

Smith will work mainly in expanding the international tobacco business, in addition to other duties as a Reynolds Industries Vice Chairman. He joined Reynolds Tobacco in 1939, rose through the sales and marketing ranks and became Chairman of the tobacco subsidiary in 1972.

Smith

Hobbs

Austin

Hobbs, who remains as President of Reynolds Tobacco, has been with the firm since 1936. After broad experience in tobacco manufacturing and general management, he was promoted to President in 1972.

Austin, who has been Reynolds Industries' Personnel Manager, is responsible for all corporate personnel functions, including employment, benefits, compensation and career development. He joined Reynolds in 1953.

Archer acquires top ribbon maker

RJR Archer, Inc. has acquired one of the top ribbon and bow producers in the U.S., the Artistic division of Sun Chemical Co., New York.

Artistic, located in Carlstadt, N.J., about 20 miles north of Newark, is the nation's leading producer of pre-tied poly bows, flat ribbon and curling ribbon.

Archer itself is already a major force in the American gift wrap industry, and President James H. Corrigan said that the purchase of Artistic is "a major opportunity to become a full-line supplier. The company has excellent products, as well as patents on some of its products and processes."

He said Artistic has built a strong market position with such major retail chains as F. W. Woolworth, Sears, McCrory, G. C. Murphy and Ben Franklin.

Artistic is particularly strong on the West Coast, which reinforces its compatibility with Archer's Consumer Products Div. The division, headquartered in Greeneville, Tenn., has a 125,000 sq. ft. plant in Biola, Calif., near Fresno.

An intensive 10-day inspection of European operations taken by Reynolds Industries executives late last year indicated growth possibilities in both tobacco and transportation. Chairman Colin Stokes, (left), reviewing Reynolds' international tobacco activities, said he had never in his 39 years with Reynolds "felt a keener sense of excitement" about the Company's future. "Reynolds has changed dramatically in the last few years," he said. "Europe has been an important factor in this change." He pointed out that sales of Reynolds cigarette brands in Europe have been growing three times faster than the market as a whole. President J. Paul Sticht, (right), viewing Sea-Land's yard in Rotterdam, The Netherlands, noted that the shipping subsidiary's business has increased more than 10 times since its 1966 beginnings in Europe.

Reynolds management wins honor

R. J. Reynolds Industries has been cited by *Dun's Review* as one of the Five Best-Managed Companies in the United States.

As the year 1974 proceeded and the economy receded, the selection panel from this leading Dun & Bradstreet monthly magazine searched hard for firms whose performances reflected not mere inflation but real corporate growth.

They settled on four main traits to mark the winners: 1) "talents that would enable a company to keep its dividend intact . . . and its lines of business reasonably sound"; 2) "companies that were getting the most mileage out of their previous capital"; 3) "(those) who were managing to increase productivity in a high-cost year, or were finding other ways to turn a dollar"; and 4) "that intangible thing called management leadership, which makes a company stand out in a crowd."

It was by these criteria that Reynolds Industries was chosen for top notice along with American Telephone & Telegraph Co., Kerr-McGee Corp., Merck & Co., and the Southern Railway System.

They were picked for "not only the skills of management, but the skills of survival," *Dun's* revealed.

"Rarely was the economic arena so hostile," observed the editors, and the challenge was to "move faster than inflation, to outpace recession and weather a crashing stock market.

"For Chairman Colin Stokes, it meant that R. J. Reynolds, facing up to mounting costs and a government dam on its mainstream business, was able to generate additional earnings from a base-broadening—and in many respects, daring—diversification program."

Dun's quoted Stokes that, "A sense of urgency is the best thing for a business. For only when a company is tested in the crucible can its fundamental strengths be measured."

"Reynolds had to maintain its industry lead as the nation's leading manufacturer and marketer of cigarettes and at the same time increase the profitability of the base-broadening businesses it began to assemble five years ago," *Dun's* asserted. "Reynolds proved that it is one of industry's most deft—and daring—diversifiers."

Dun's noted that it was only 12 years ago that Reynolds' "traditionally conservative management took a realistic look at the future and concluded that corporate growth could no longer depend upon tobacco alone."

"We examine every investment to be sure it provides a return and ultimately pays for itself," President J. Paul Sticht said. That benchmark is applied to all of Reynolds' businesses, from Hawaiian Punch to petroleum, and *Dun's* asserted that for a tobacco company to handle such diverse operations as cigarettes, containerships, Christmas wrap and Chinese dinners, "owes much to Reynolds' management philosophy."

To *Dun's* this is just a further indication of that ultimately prized willingness to set goals "beyond the normal corporate reach."

Inquiries

Communications concerning transfer requirements and lost certificates should be directed to either Transfer Agent: The Chase Manhattan Bank, N.A., 1 New York Plaza, 14th Floor, New York, N.Y. 10015, or First Jersey National Bank, 1 Exchange Place, Jersey City, N.J. 07303.

Communications concerning dividends and change of address should be directed to R. J. Reynolds Industries, Inc., Shareholder Services Dept., Box 2959, Winston-Salem, N.C. 27102.

Archer adding $13 million facility

RJR Archer, Inc. has begun construction on a $13 million continuous aluminum casting facility at its plant in Huntingdon, Tenn.

The addition, which will feature the latest technology, will occupy a space of 57,000 square feet.

It is expected to be in operation, Archer officials say, by the third quarter of 1976, giving Archer's Metals Div. its second continuous aluminum casting facility. The other is at Plant 200 in Winston-Salem.

The new installation will call for approximately 30 additional employees at the Huntingdon plant once it is fully operating.

The output of the new facility will be in the form of coiled sheet aluminum which will be used as a part of the raw material for the Huntingdon plant.

Archer's Huntingdon plant manufactures a wide range of aluminum products, including aluminum foil and sheet for packaging; household foil; and aluminum fin stock used in air conditioners.

Reynolds promotes two financial men

Robert A. Emken has been named Executive Vice President of Sea-Land Service, Inc., moving from Comptroller of Reynolds Industries.

The Board of Directors elected John A. Hagan as Reynolds Industries' Comptroller, succeeding Emken. Hagan has been Assistant Comptroller.

Emken joined R. J. Reynolds' tobacco subsidiary in 1958 in the Comptroller's Dept. and was elected Comptroller of Reynolds Tobacco in 1969. When Reynolds Industries was formed in 1970, Emken was elected Comptroller of the new corporation.

Emken

Hagan

Hagan joined Reynolds Tobacco in 1963 in the Comptroller's Dept. and was elected an Assistant Comptroller of Reynolds Industries in 1970.

A taxing ordeal

According to "The Tax Burden on Tobacco," just issued by the Tobacco Tax Council:

*The average American smoker pays more than $100 a year in cigarette taxes.

*Without excise taxes, cigarettes would sell for 19 cents a pack (less than a penny a smoke). The average price per pack across the U.S. is 45 cents.

*Total cigarette taxes are five times the money the farmer gets for the tobacco that goes into the cigarettes.

The Tobacco Tax Council notes that this exorbitant taxation not only restrains the market for cigarettes, but is unfair from the standpoint that those who pay the taxes gain no benefits from them. Economists point out, too, that cigarette taxes are "regressive" in that poorer people are the ones who are most affected.

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